

GOVERNMENT OF THE DISTRICT OF COLUMBIA



**FOR IMMEDIATE RELEASE:
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**DISTRICT OF COLUMBIA
OFFICE OF THE CORPORATION COUNSEL
AND
DEPARTMENT OF INSURANCE AND SECURITIES REGULATION
ANNOUNCE RELEASE OF CAIN BROTHERS REPORT
ON THE VALUATION OF CAREFIRST, INC.**

(Washington, DC) The District of Columbia Office of the Corporation Counsel (OCC) and the Department of Insurance and Securities Regulation (DISR) today released the Valuation Report on CareFirst, Inc., prepared by their independent valuation consultant, Cain Brothers & Company, LLC. This Report concludes that, as of January 23, 2003, the aggregate value of CareFirst, Inc. (including its subsidiaries in Delaware, the District of Columbia and Maryland) is within the range of \$1.65 billion to \$1.75 billion. In addition, Cain Brothers concluded that the value of Group Hospitalization and Medical Services, Inc. (GHMSI), the subsidiary of CareFirst that is domiciled in the District and covers the greater Washington area, is within the range of \$915 million to \$960 million.

The law requires that OCC, in reviewing the proposed conversion of CareFirst from non-profit to for-profit status and the proposed acquisition of Care First by WellPoint Health Networks Inc., determine whether the charitable assets of non-profit GHMSI will be adequately protected, if the conversion to for-profit status takes place. In doing so, OCC will determine whether GHMSI would receive reasonably fair value for its assets under the proposed transaction. Should the conversion and acquisition be approved by OCC and DISR, OCC must also ensure that the proceeds are placed in a charitable trust foundation and used for purposes consistent with GHMSI's purposes or operation in the affected community.

This summer, both OCC and DISR will conduct public hearings as a part of their reviews of the proposed transaction. OCC's and DISR's experts, including Cain Brothers, are expected to give oral presentations and present their findings at the public hearings.

Information, news, descriptions of OCC's role in the review of the transaction, OCC's discovery requests, certain documents in response thereto and notices regarding OCC's review of the transaction are available on OCC's website: <http://occ.dc.gov>. The Cain Brothers Report will be posted to the OCC website. Information about DISR's review is available at DISR's website: <http://www.disr.dc.gov>.

Cain Brothers is one of the nation's leading health care investment banking firms and provides a full range of advisory and capital markets services to health care clients. Cain Brothers has experience in many transactions similar to the proposed CareFirst conversion and acquisition. More information about Cain Brothers is available at their website:
<http://www.cainbrothers.com>.

OCC has established a public document room in the OCC Law Library at One Judiciary Square, 441 Fourth Street, NW, Room 1C-S010, so that the public can review the documents submitted by CareFirst, WellPoint and the public regarding the proposed transaction. Copies of the Cain Brothers Report will be available in the public document room, in addition to the OCC website. An index of the documents in the public document room is also available on the OCC website. The public document room is open during normal business hours. The procedures for use of the public document room have been posted on OCC's website, and anyone who wishes to inspect and/or copy documents in the public document room should contact Tammy King at 202-463-4359 during regular business hours.

For questions on the Cain Brothers Report and the status of OCC's review of the proposed transaction, please contact Peter Lavalley, OCC Public Information Officer, at 202-724-5198. For questions about DISR's role in reviewing the proposed transaction, please contact Dana Sheppard, Director of Policy and Public Information, at 202-442-7753.

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SUMMARY OF THE CAREFIRST CONVERSION REVIEW PROCESS

CareFirst, the largest health insurer in the Washington, DC, region, provides health benefits to approximately 1.3 million subscribers in the District, Maryland, Delaware and Virginia, through its subsidiaries and various health plans.

WellPoint Health Networks Inc., in conjunction with CareFirst and GHMSI, applied to the District of Columbia Department of Insurance and Securities Regulation (DISR) on January 11, 2002 (amended on August 13, 2002, and January 21, 2003), for permission to convert GHMSI to for-profit status and then to allow WellPoint to acquire CareFirst and GHMSI. Similar applications were submitted to the Insurance Commissioners of Maryland and Delaware, for review of the subsidiaries domiciled in their respective jurisdictions. GHMSI, a subsidiary of the holding company CareFirst, is better known by its trade name, Blue Cross/Blue Shield of the National Capital Area.

Congress originally chartered GHMSI in the 1930s as a non-profit “charitable and benevolent” health insurer, while WellPoint is a for-profit managed-care corporation based in Thousand Oaks, California. GHMSI’s territory serves residents of the District of Columbia, Montgomery and Prince George’s Counties in Maryland and Virginia east of Route 123, as well as the portions of the incorporated cities of Vienna and Fairfax west of Route 123.

Both the Office of the Corporation Counsel and DISR are reviewing the proposed conversion and acquisition, pursuant to the Hospital and Medical Services Corporation Regulatory Act of 1996, the Holding Company System Act of 1993, and the Healthcare Entity Conversion Act of 1997.

The Hospital and Medical Services Corporation Regulatory Act (DC Official Code § 31-3501 *et seq.*) requires that, before the DISR Commissioner may approve the conversion of GHMSI to for-profit status and the “acquisition of control” of GHMSI by WellPoint, the Corporation Counsel is to find that the charitable assets currently held by GHMSI have been adequately protected. The Corporation Counsel is to conduct its review pursuant to standards set forth in the Healthcare Entity Conversion Act (DC Official Code § 44-603(c)) (the “Conversion Act”).

The Conversion Act requires the Corporation Counsel to consider the following: whether the parties to the transaction have complied with all applicable laws and requirements both within and without the District of Columbia; whether the proposed conversion is permitted under other laws of the District governing nonprofit persons, trusts or charities; whether CareFirst and GHMSI exercised due diligence in deciding to convert to for-profit status and sell their assets to WellPoint; whether the procedure used by CareFirst and GHMSI in making its decision to convert and sell was fair and objective and whether appropriate independent expert assistance was used; whether any authorized person has been convicted of violating any federal or state law or regulation or has been indicted, is currently being investigated, or has entered into a settlement agreement in connection therewith; whether the resulting for-profit entity will be financially sound and has the financial and management capacity to operate; whether all potential conflicts of interest have been disclosed; whether WellPoint’s purchase offer constitutes reasonably fair value and whether the value of the charitable assets has been manipulated in a manner that has

caused them to decrease; whether the charitable assets are placed at unreasonable short-term or long-term risk; whether any management contract under the proposed conversion is for reasonable fair value; and whether the transaction results in the enrichment of any person. In addition, the Conversion Act requires that, if the transaction is approved, an independent charitable trust foundation must receive GHMSI's charitable assets, to be used "for appropriate charitable purposes consistent with the healthcare entity's purposes or operations in the affected community."

The Office of the Corporation Counsel welcomes written comments on the proposal from all sources. Written comments should be submitted to OCC at 441 4th Street, NW, Suite 1060 North, Washington, DC 20001. In addition, interested persons and groups that wish to be on OCC's official mailing list for news and notices regarding OCC's review of the transaction should send a letter to that effect to the above address.

For questions about OCC's review of the proposed transaction, please contact Peter Lavalley, Public Information Officer, at 202-724-5198. For questions about DISR's review of the proposed transaction, please contact Dana Sheppard, Director of Policy and Public Information, at 202-442-7753.

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